

~~SECRET~~

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

~~CONFIDENTIAL~~

CONF NO. 15

OCI NO. 8260

16 July 1954

E D

CURRENT INTELLIGENCE WEEKLY



DOCUMENT NO. *12*
NO CHANGE IN CLASS. ()
DECLASSIFIED
CLASS. CHANGED TO: TS S *0A89*
NEXT REVIEW DATE:
AUTH: HR 702 *12571*
DATE: REVIEWER:

25X1

CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

~~SECRET~~

25X1



State Dept. review completed

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly has been prepared primarily for the internal use of the Central Intelligence Agency. It does not represent a complete coverage of all current situations. Comments and conclusions represent the immediate appraisal of the Office of Current Intelligence.

~~SECRET~~

CONFIDENTIAL

SUMMARY OF CONTENTS

THE SOVIET WORLD Page 4

PEIPING MAKING NEW BID FOR INTERNATIONAL RECOGNITION. . Page 6

The efforts by the Chinese Communists at the Geneva conference to improve relations with Western powers may result in wider international recognition of Peiping and in greater support for its claim to China's seat in the United Nations.

PROBLEMS FACING THE MENDES-FRANCE GOVERNMENT Page 8

Even if French premier Mendes-France can produce an early Indochina truce, he still faces serious difficulties in making the rest of his program acceptable to the National Assembly and in the necessary broadening of party representation in his cabinet. Further problems are presented by assembly antagonisms toward Mendes-France personally and by the neutralist tendencies of some of his immediate advisers.

CURRENT ASSESSMENT OF ARAB-AMERICAN RELATIONS Page 10

Arab-American relations continue to be disturbed by Arab resentment over the United States' support of Israel, the Suez dispute with Britain, and American efforts to promote Middle East defense.

ADENAUER STILL HOPES FOR EDC AS HE DEMANDS GERMAN SOVEREIGNTY Page 12

Although Chancellor Adenauer insists on German sovereignty if France does not ratify EDC soon, he has avoided any renunciation of his pro-Western and integration policies, and is presently supporting no alternative plan for German rearmament.

FOREIGN EXCHANGE CRISIS THREATENS PAKISTAN GOVERNMENT . Page 14

The prestige of the present Pakistani government is seriously threatened by a developing foreign exchange crisis. A gap of at least \$90,000,000 will exist between the cost of essential imports during the next 12 months and the foreign exchange to pay for them.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 2

~~SECRET~~

CHINESE NATIONALISTS DISRUPT ORBIT SHIPPING TO MAINLAND CHINA Page 16

Through recent seizures of Soviet Orbit ships, the Chinese Nationalists have achieved considerable success in their attempt to disrupt shipping to major Chinese mainland ports. Their interference has become a major and costly annoyance to the Soviet bloc.

MOSCOW DEVELOPS CLOSER RELATIONS WITH JAPAN Page 18

During the past few months the Soviet Union has been quietly exploiting economic and other avenues of approach as a means of improving its relations with the Japanese government. Moscow probably hopes in the short run to establish a de facto relationship--relying in the long run on Japan's deteriorating economic situation and the general trend of Far Eastern developments to force the Japanese into an accommodation with the Orbit.

READJUSTMENTS IN SATELLITE MILITARY POLICY. Page 20

Military developments in the Eastern European Satellites since mid-1953 suggest an attempt to combine reduced expenditures with improved training and efficiency.

IRRITATIONS IN SWISS-AMERICAN RELATIONS Page 22

Swiss relations with the United States have recently been under strain on a number of issues, thus raising the possibility that Switzerland will be less co-operative with Washington in such matters as East-West trade and the Neutral Nations Supervisory Commission in Korea.

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

THE SOVIET WORLD

A number of leading officials of the Hungarian Communist regime, including top-level party leader Erno Gero, have been relieved of their posts in order to assume other unnamed "important functions" or have been appointed to new "supra-ministerial" positions during recent weeks. This reshuffling suggests that an "inner cabinet" has been re-created to handle the regime's serious economic and ideological problems arising out of new course policies, a task these officials are uniquely suited to handle by virtue of their past experience and training.

Gero, long considered to be Hungary's economic boss, was replaced as minister of the interior although he retains his post of first deputy premier. Others who were reassigned without explanation include: Andor Berei, former first deputy minister of foreign affairs and believed to be the real power in the ministry; Jozsef Tisza, the former minister of produce collection; and Oszkar Betlen, the former editor-in-chief of the official party daily. Another important economic leader, Zoltan Vas, is believed to have been appointed to head a newly-created "supraministerial" Office of Material Economy, while Zoltan Szanto, a long-time Communist theoretician, was named chief of a new "supraministerial" Bureau of Information.

The recent separation of the Hungarian ministries of foreign and domestic trade may presage a general expansion of Satellite cabinets. This in turn may mean that "inner cabinets," which disappeared following Stalin's death, will reappear throughout Eastern Europe.

Further evidence that Moscow regards Western military planning with the "northern tier" Middle Eastern states as a matter of signal concern was the 8 July Soviet aide-memoire, asking Iran's intentions toward participation in Western plans. Iran was reminded of the provisions in the 1927 Soviet-Iranian treaty in which both countries agreed not to participate in political agreements or alliances which would be detrimental to the security of the other.

Moscow's decision to intensify pressure on Iran may reflect a belief in the Kremlin that time is no longer on its side and that it must use its influence with Iran now. The timing of the demarche may also have been influenced by Moscow's appraisal of the recent Iranian rebuff to the Indian ambassador's proposal for an East-West pact guaranteeing Iran's sovereignty and Soviet recognition that an oil settlement is nearing conclusion.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 4

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

Soviet propaganda has long insisted that an oil settlement on terms presently envisioned would open the way for Western--and particularly American--domination of the country. It was this point that Pravda emphasized so strongly on 2 July in an article which the Soviet embassy, in a highly unusual move, reproduced and distributed to Majlis deputies. Moscow would prefer to preclude all chances for a period of stability in Iran, which would probably lead to a decline of Soviet influence.

~~SECRET~~

PEIPING MAKING NEW BID FOR INTERNATIONAL RECOGNITION

The efforts by the Chinese Communists at the Geneva conference to improve relations with Western powers may result in wider international recognition of Peiping and in greater support for its claim to China's seat in the United Nations. At the same time Chou En-lai's personal triumph at Geneva may affect the internal alignment among Peiping's leaders.

At high-level talks with the heads of delegations at Geneva, and in unofficial meetings with trade groups, the Chinese Communists attempted to widen the split between the United States and its British and French allies.

The Peiping regime has arranged to send a chargé to London, thus normalizing diplomatic relations. For the past four years, the British envoy in Peiping has largely been ignored, and the Chinese government has refused to accredit a representative to the United Kingdom, chiefly because of Britain's lack of active support for China's UN membership.

Negotiations between British and Chinese delegates at Geneva have led to the release of all British subjects detained in China. In talks with British business groups, Chinese trade officials arranged for a trade delegation, the first Peiping has ever sent to a Western country, to visit England.

Since the 23 June meeting of Mendes-France and Chou En-lai, the American embassy in Paris has gained the impression that France may be considering recognition of Peiping. High Foreign Ministry officials are reportedly being sounded out for the post of ambassador.

Peiping exploited direct contacts with other Western nations at Geneva, largely through the issue of foreign nationals detained in China, and through approaches on trade.

During negotiations for the release of Canadian citizens, the Chinese suggested that Peiping would like to establish diplomatic relations with Canada. The St. Laurent government, however, still maintains that Peiping should not be recognized at this time.

Chinese officials are also said to have approached representatives of Norway and the Netherlands in an attempt to

~~SECRET~~

improve China's relations with those countries. While there has been no known reaction to these overtures, both countries probably would be amenable to closer relations, especially since Sino-British relations have improved.

Other meetings on the status of foreign nationals in China were held with representatives of Belgium, Italy, West Germany and the United States. The Chinese Communists are believed to have given a favorable response to all requests except that of the American delegation. Peiping apparently wants to prolong the talks and secure the right to deal with the American delegation on behalf of all Chinese nationals in the United States.

Another approach to Western nations at Geneva was made through trade representatives. Business groups from Belgium, Canada, Italy, the Netherlands and West Germany were invited to discuss trade with China, and a Dutch trade delegation arranged to visit China this fall.

Since Peiping is believed uninterested in expanding Western trade under the present restrictions, the overtures at Geneva seem designed to encourage recognition of the regime and to break down Western trade barriers.

Most of the countries contacted by Peiping have not supported Peiping's efforts for UN membership or have not recognized the Communist regime, and many are susceptible to British and French influence on foreign policy matters. Numerous policy statements have been made by various foreign ministers of nations friendly to the United States calling for a reappraisal of Chinese membership in the UN, but it still seems unlikely Peiping will be admitted at the forthcoming ninth General Assembly session. Support for American procedural maneuvers at this time is sufficient to block the two-thirds vote necessary to admit Peiping to the General Assembly.

China's success at Geneva can be largely attributed to the cunning and personal charm of Peiping's premier and foreign minister, Chou En-lai, who for years has traded on his reputation for "sincerity" and on non-Communist hopes of allaying his "suspicions." At a time when a successor to the aging, and perhaps ill, Mao Tse-tung has become a real problem, and when the Chinese Communist Party "reorganization" has given every indication of extending to the top leadership, Chou has solidified his position in the Peiping hierarchy.

He has assured himself of an important part in the collegium which will probably succeed Mao, and may be able to capitalize on his popularity to emerge eventually as the leader of Communist China.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 7

~~SECRET~~

PROBLEMS FOR THE MENDES-FRANCE GOVERNMENT

Even if French premier Mendes-France can produce an early Indochina truce, he still faces serious difficulties in making the rest of his program acceptable to the National Assembly and in the necessary broadening of party representation in his cabinet. Further problems are presented by assembly antagonisms toward Mendes-France personally and by the neutralist tendencies of some of his immediate advisers.

The large assembly majorities he has achieved so far do not reflect support for his program as a whole, but rather the political magic of his "contract" to achieve an Indochina settlement by 20 July or resign. Actually, the record vote attained on confirmation of his cabinet concealed some weakening of support from key Radical Socialist and Gaullist elements which occurred during the week following his investiture. He is unlikely to be held to the 20 July deadline if a cease-fire seems close by then; but if he is to continue in office for long after a truce, he will probably have to undertake a major cabinet reshuffle to include more left-center elements, and to tailor his program accordingly.

Mendes-France's economic policies, the foundation of his over-all program, are expected to consist largely of steps to broaden the plan Finance Minister Faure instituted under Laniel. This plan has made considerable progress toward the goal of increasing purchasing power and the gross national product 10 percent by the fall of 1955. The premier believes, however, that more drastic tax reforms are necessary to encourage investments in production, and such measures would evoke strong attack from the small businessmen who form a major element of his own Radical Socialist Party. His conviction that real budget retrenchment would include reductions in family allowances and other social benefits runs counter to the established policies of both the Socialists and the Popular Republicans.

Mendes-France has also promised a clear decision on EDC before the summer parliamentary recess. His investiture plea for an effort to find a compromise version acceptable to a considerable majority in the assembly, however, has not yet been translated into action by the committee representing opposing cabinet factions. Meanwhile, the plan appears already nullified by the refusal of the other EDC powers to accept any major changes.

These developments may lead him to conclude that there is no feasible alternative to submitting an unaltered EDC to the assembly, where the backers of the treaty insist they still have a majority. As a last resort for disposing of the EDC issue without an embittered parliamentary debate, however, he might move to reverse France's present strong stand against restoring German sovereignty independently of the EDC treaty.

Mendes-France seems personally attached to France's basic Western alliance policy, but he may allow his own views to be colored by some of his most intimate advisers, who are reported to include a high proportion of leftist neutralists. For the first time these elements are in a position to exert direct influence on French government policy. Among these, for example, is Georges Boris, who has in the past emphasized that France should concentrate on economic recovery and steer clear of East-West rivalries. The new premier's closest reported journalistic contacts are with the neutralist weeklies L'Observateur and the less blatant L'Express.

The American embassy reports that in general only "leftish and intellectual circles" were enthusiastic over Mendes-France's investiture. The more bitter critics of the new regime lump together most of Mendes-France's advisers as a collection of "Jews, freemasons, and other anticlerical forces" bent on blocking France's participation in a Europe integrated under the aegis of the various center Catholic parties, including the Popular Republicans in France.

Another factor affecting Mendes-France's ability to remain in power is his personal relationship with fellow deputies, who sometimes find him irritatingly condescending. Although he is breaking ground in French politics by the adroit use of radio "fireside chats" with the French people, the embassy reports that the assembly objects to such appeals "over its head." In any case, this device is unlikely to consolidate public sentiment in time to help him appreciably in resolving the major issues facing him before the assembly recesses in August.

~~SECRET~~

CURRENT ASSESSMENT OF ARAB-AMERICAN RELATIONS

Despite a few hopeful developments, Arab-American relations continue to be disturbed, chiefly by Arab resentment over the United States' support of Israel--the yardstick against which co-operation with the United States is regularly measured. The Suez dispute with Britain and American efforts to promote Middle East defense have roused intra-Arab jealousies and anti-Western activity. The death of King Ibn Saud is bringing new and hostile forces against the United States in Saudi Arabia.

Although Israel was created six years ago, Arab resentment over the part played by the United States in its creation has not significantly lessened. Any hope that this emotional issue might slowly fade out is thwarted by the recurrent breakdown of the uneasy Arab-Israeli truce arrangements. Likewise, the periodic financial support which flows into Israel from private and public American sources keeps the wound raw.

Pro-Western Arab leaders privately deplore the attitude of their people. They parrot publicly, however, the intemperate popular line, or at best remain silent, as they are fully aware that Arab bitterness over Israel makes it dangerous for them to voice opposing opinions.

The Arab press and radio periodically issue inflammatory calls to arms against Israel, at the same time heaping opprobrium on the United States. As most of the local communications facilities are government-controlled, this reflects the leaders' unwillingness to take an independent stand on this emotional issue.

The Suez dispute involving American and British efforts to promote Middle East defense continues to rouse anti-American sentiment among the Arabs. Egypt has been increasingly annoyed over America's unwillingness to grant it sizable economic aid in advance of a Suez settlement.

There have long been intra-Arab differences as well as steady Arab opposition to American efforts to promote Middle East defense arrangements. Egypt and Saudi Arabia are currently waging a strong propaganda campaign against Iraq's contemplated adherence to the Turkish-Pakistani defense arrangement.

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

American relations with Saudi Arabia have been on a sharp decline since King Saud came to power in November 1953. Surrounded largely by anti-Western advisers, he voices strong anti-Israeli sentiments and repeatedly decries alleged American support of Britain in his dispute over the Buraimi area on the eastern coast.

Saud has adopted a tough bargaining attitude toward the Arabian-American Oil Company and has signed the Onassis oil transport agreement, which has evoked strong protests from ARAMCO and from the Department of State. He decided in late June not to renew the Point IV program.

In this basically gloomy picture, there are a few hopeful developments and prospects. Iraq, guided by leaders friendly to the West and concerned over the threat of Communism, is moving slowly toward co-operation with Western defense planning. In recent weeks an Arab technical committee met repeatedly with Special Ambassador Cric Johnston and publicly showed a constructive attitude toward the American proposals for the development of the Jordan River valley. An early Anglo-Egyptian settlement of the Suez problem, which now seems possible, might significantly improve the American position in the Arab states, where there is a general feeling that the present administration is more friendly than its predecessor.

For the long run, however, Arab political and economic immaturity is a serious block to effective co-operation with the West. The Arab states' lack of unity and direction is exploited by various extremists, such as the religious fanatics who call for a revival of medieval greatness by evicting the Western infidel. Ultrationalists join the chant and demand the end of colonialism. Leftists and militant Communists urge the elimination of Western influence and the rise of the "people." These forces strain American-Arab relations.

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

ADENAUER STILL HOPES FOR EDC AS HE DEMANDS GERMAN SOVEREIGNTY

West German domestic political developments and the accession of Mendes-France as French premier have influenced Chancellor Adenauer to demand the restoration of German sovereignty independently of EDC. Nevertheless the chancellor has avoided any renunciation of his pro-Western and integration policies, and is presently supporting no alternative plan for German rearmament.

In the past, Adenauer's foreign policy has had two chief objectives--German sovereignty and rearmament--to be achieved respectively through simultaneous implementation of the Bonn and Paris treaties. When the French National Assembly invested Premier Mendes-France, whose attitude on EDC had long been regarded as equivocal, Adenauer announced on 20 June that if France did not soon ratify EDC, he would insist on the sovereignty granted in the contractual agreements. Adenauer was then in the midst of the state election campaign in North Rhine-Westphalia, where his adherents retained control in the 27 June vote. In general, he seems to have wide support for his basic policy; influential papers have even criticized him for suggesting separation of the two treaties as soon as he did.

Adenauer apparently remains convinced that the best way to organize Western European defense is in accordance with the present EDC treaty. He continues to affirm publicly that the French, in the end, will agree with him. In a press interview on 2 July, he flatly declared that the only alternative to EDC was a German national army--which, he went on to say, he did not want. In the same interview, Adenauer rejected the idea of negotiating changes in the EDC treaty before it is ratified by the National Assembly.

If it develops that the treaty as it stands is unacceptable to France, Adenauer will necessarily have to explore less satisfactory military arrangements, such as a watered-down EDC, or some alliance requiring either the expansion of German security forces or the creation of a national army.

25X1

Even if West Germany is granted sovereignty independently of EDC this year, Bonn will be required to forego its right of unilateral rearmament for the time being.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 12

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

A joint Anglo-American study group met in London from 5 to 9 July and recommended a specific program for restoring German sovereignty if the French assembly adjourns without ratifying EDC. In such an event the United States, Britain, and the Federal Republic would invite France to join in a protocol bringing into force the Bonn treaty minus all references therein to EDC. If France refuses, the other powers would take the steps available to them to make the treaty operative. The proposed protocol, which now reserves the question of German rearmament, also provides that if EDC has not entered into force 90 days after the signing of the protocol, any of the signatories may review its provisions with a view to obtaining an immediate defense contribution from West Germany. In effect, this would give France additional time in which to accept EDC after it is clear that the other three powers, if necessary, will move ahead without France.

Because the London study group did not develop specific alternatives to EDC, the problems of controls over German rearmament and payments by Germany for the support of Allied troops in the Federal Republic were not considered. If Germany gets its sovereignty but a military alternative to EDC is not found, these two problems must be faced before the Bonn and Paris treaties can be successfully separated.

The impasse in Paris has been a windfall for those West Germans who are unenthusiastic about close Western ties, and who believe that Germany's first policy objective is not rearmament or even sovereignty, but unification. The past few weeks have seen increased discussion of neutrality, co-operation with East Germany, rapprochement with Moscow and , contradictorily, recovery of Germany's eastern territories.

Nevertheless, by taking the lead in demanding German sovereignty, Adenauer seems to have precluded the formation of strong parliamentary opposition to himself or his policies. Most West Germans are not attracted by neutralism, still evidently believe in Adenauer's ability to adjust his pro-Western course to current developments, and are even skeptical of the wisdom of trying to proceed without France.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 13

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

FOREIGN EXCHANGE CRISIS THREATENS PAKISTAN GOVERNMENT

The prestige of the present Pakistani government is seriously threatened by a developing foreign exchange crisis. Having sought to allay growing political opposition by promising to make more imported consumer goods available, Karachi in the last month has found that a gap of at least \$90,000,000 will exist between the cost of essential imports during the next 12 months and the foreign exchange to pay for them.

Since late 1952 Pakistan has enforced stringent controls on imports of consumer goods in order to conserve foreign exchange for industrial development. These controls held 1953 foreign exchange expenditure to half that of 1952 and enabled Karachi to maintain an over-all favorable balance of payments, in spite of an 18-percent drop in foreign exchange earnings. A large sterling deficit equivalent to \$89,000,000 and a moderate dollar deficit of \$21,000,000 nevertheless remained.

In the absence of elections, Karachi apparently felt it could safely ignore grumbling among consumers as stocks dwindled and prices soared during late 1953 and early 1954. The East Pakistan elections in March, however, jolted the government into awareness of the hostility it had incurred on economic as well as political grounds. This awareness was reflected in the program of increased consumer imports announced after the declaration of "governor's rule" in East Pakistan on 30 May.

In early June, Pakistani officials revealed that a decline in foreign exchange receipts during recent weeks indicated that the exchange available for consumer imports for the period July 1954-June 1955 would be no more than the equivalent of \$210,000,000. Minimum essential consumer requirements were estimated at \$300,000,000 and normal requirements at \$450,000,000. The resultant future gap between supply and demand for consumer goods, coming after the austerity of the previous 18 months and the recent promises of relief, was considered most dangerous to political and economic stability.

From the standpoint of United States objectives, the American embassy in Karachi sees in the crisis three major potential dangers: (1) weakening pro-American sentiment, especially since the larger amounts of economic aid scheduled for India may create doubts about the wisdom of Pakistan's alignment with the United States; (2) lessening effectiveness of American military aid to Pakistan; and (3) increasing danger of effective Communist activity, particularly in East Pakistan.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 14

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

SECRET

The crisis comes at a particularly unpropitious period in Pakistan's political and economic development. The Moslem League government is still shaken by its defeat in East Pakistan and faces probable national elections in 1955, and the country is still only on the verge of deriving concrete benefits from its industrial development program. The threat to Pakistan's stability, however, appears to be somewhat longer in range than Karachi's alarms have suggested.

Order can probably be maintained in East Pakistan for at least the next few months, and longer if determined use of force is continued. In West Pakistan, groups capable of effectively organizing the existing dissatisfaction have not yet appeared, although alliances among the disaffected are certain to materialize as national elections approach. Furthermore, a certain amount of disillusionment regarding Pakistan's ties with the United States is inevitable under any conditions, since the amount of military aid Pakistan is likely to receive has been grossly exaggerated in the popular imagination.

Moreover, additional economic aid beyond that already programmed from American and Colombo Plan sources will not solve Pakistan's basic problem of finding a secure economic status in world markets. Although domestic consumer goods production will increase, Pakistan will continue to depend almost entirely on its jute and cotton crops for foreign exchange earnings, and both these commodities are subject to world price fluctuations. Thus, while foreign aid in the form of additional supplies of consumer goods would provide a short-term boost for Karachi's political stock, there will continue to be a substantial gap, of which foreign exchange crises are but the reflection, between Pakistan's industrial and military ambitions and its economic capabilities.

SECRET

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

**CHINESE NATIONALISTS DISRUPT ORBIT SHIPPING
TO MAINLAND CHINA**

Through recent seizures of Soviet Orbit ships, the Chinese Nationalists have achieved considerable success in their attempt to disrupt shipping to major Chinese mainland ports. Their interference, which has denied ships carrying strategic cargoes from the European Satellites the use of ports north of Formosa, has become a major and costly annoyance to the Soviet bloc.

The Chinese Nationalists began interfering with overseas shipping in the China trade on 4 October 1953, with the capture of the Polish tanker Praca in waters just east of the Bashi Channel between Formosa and the Philippines. Previous Nationalist interceptions had been only in the Formosa Strait, which has long been avoided by Orbit shipping.

The second interception of a China-bound ship from Europe occurred on 13 May, when a Chinese Nationalist destroyer escort seized the Polish vessel Prezydent Gottwald 415 miles east of Formosa. The third and most recent such incident was the capture on 23 June of the Soviet tanker Tuapse, bound for Shanghai. The Tuapse was intercepted about 100 miles south of Formosa.

Since the seizure of the Tuapse, no ship with industrial cargo from Communist Europe has attempted to proceed to Chinese Communist ports north of Formosa. The total of such cargoes, particularly of bulk petroleum products, had been exceeding the amount that can be handled through Whampoa, China's single large port south of Formosa, for shipment by rail to the north.

China's Orbit suppliers are faced with an immediate problem in the fact that since 23 June 13 vessels--Russian, Polish, and Finnish--with cargoes for China from the Satellites have passed the Indian Ocean. Some have had to await instructions in the Singapore area. Five of the seven Russian vessels in the area had left Singapore by 12 July declaring for Far East ports. It is not clear, however, what course these vessels will take to lessen the risk of further interceptions.

The problem with 13 strategic cargoes en route to China is that Whampoa can handle probably no more than a few at one time--the port has been averaging four overseas arrivals a month. Over the long run, some of this shipping would probably require

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 16

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

~~SECRET~~

an armed escort through Formosan waters, now patrolled by the American Seventh Fleet, to ensure prompt sea delivery of European Satellite exports to China.

The Soviet Orbit can avoid the Nationalists entirely only by diverting Satellite cargoes, in excess of the amounts which Whampoa can take, to the long and more costly trans-Siberian rail haul.

Excluding the two cargoes seized in May and June, the Satellites have shipped 180,000 tons of industrial cargoes past Formosa directly to North China since the first of the year. In addition, most of the 92,000 tons of industrial imports from the Satellites delivered via Whampoa in the first six months of 1954 was probably moved overland to industrial areas in the north. These goods are internationally regarded as "strategic" and are embargoed for export to Communist China by most Western European countries. Swedish and Finnish vessels are the only non-Communist shipping that will carry them.

~~SECRET~~

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

MOSCOW DEVELOPS CLOSER RELATIONS WITH JAPAN

During the past few months the Soviet Union has been quietly exploiting economic and other avenues of approach as a means of improving its relations with the Japanese government. Moscow probably hopes in the short run to establish a de facto relationship--relying in the long run on Japan's deteriorating economic situation and the general trend of Far Eastern developments to force the Japanese into an accommodation with the Orbit.

As long ago as last August, Malenkov referred in a major foreign policy speech to "the immediate significance" of normalizing relations with Japan. Following this, Moscow proceeded to return more than 1,400 Japanese prisoners of World War II, thereby removing one of the chief obstacles to the normalization of relations.

25X1

In January, Soviet skaters participated in a Japanese-sponsored international competition--the first time since World War II that nondiplomatic Soviet citizens had gone to Japan. In May, a group of Soviet wrestlers took part in an international meet in Tokyo and Moscow sent representatives to the ECAFE Waters Resources Conference held there.

In the most recent manifestation of friendship, Moscow appears to be laying down the red carpet for a delegation of 16 Japanese Diet members visiting the Soviet Union on their return from the Stockholm Peace Conference. Press reports indicate that besides a conducted three-week tour of the Soviet Union, Soviet authorities are offering prospects of increased trade, fishing concessions, and the return of Japanese prisoners still held in the USSR.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 18

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

Since it does not have formal relations with the USSR, the Japanese government has been reluctant to give official approval to Moscow's offers and overtures. Recently, however, it has been responding to the increasing economic pressure to relax trade controls and travel restrictions. In June, for the first time since World War II, the Japanese Foreign Ministry authorized an official delegation of agricultural and industrial experts to make an inspection tour of the USSR. On 8 July it agreed to issue a passport to a representative of the fishing industry to visit Moscow to discuss restoration of fishing rights in waters surrounding Soviet territory. The Foreign Ministry has also approved procedures whereby a limited number of Soviet trade officials may enter Japan under private auspices for barter negotiations.

Soviet trade with Japan is still negligible, constituting less than one percent of Japan's total foreign trade, and Moscow will undoubtedly continue its efforts to capitalize on the growing Japanese sentiment to improve commercial relations with the Orbit. There will probably be new offers of Soviet coal, lumber, oil and other raw materials; and Moscow may open Soviet waters to Japanese fishermen.

Moscow probably feels there is not sufficient advantage to be gained in the immediate future to justify meeting Japanese conditions for a resumption of normal diplomatic relations, which include recognition of the San Francisco Peace Treaty and return of the former Japanese islands of Habomai and Shikotan. Moreover, the Kremlin probably estimates that time is in its favor and, therefore, major concessions are not necessary.

~~SECRET~~

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

READJUSTMENTS IN SATELLITE MILITARY POLICY

A current readjustment of military policy in the Eastern European Satellites springs in part from economic considerations; in part, however, it reflects the achievement of critical goals in the build-up of Satellite ground forces and a shift in emphasis to qualitative improvement. Recent developments reflecting this readjustment include reduced military expenditures and some reductions in personnel strength, but also evidences of more attention to training and efficiency. This readjustment is reflected primarily in the ground forces, while Satellite air forces continue their quantitative expansion.

The annual budgets announced in the spring of 1954 showed a leveling-off of military expenditures following several years of rising appropriations. Published military allocations of two of the Satellites remained virtually at the 1953 level; three others showed reductions. Only Czechoslovakia raised its military budget--by eight percent. (The East German budget does not reveal military appropriations.)

The sharpest reduction was in the Rumanian budget, in which the military allocation was about 37 percent lower than in 1953. This reduction is partly accounted for by a cut of up to 50 percent in officers' pay and allowances last February or March which also affected supervisory personnel in the civilian economy.

Personnel strength of the Satellite armies has been stabilized at an estimated 1,115,000--a drop of some 160,000 since mid-1953. Part of this drop reflects a re-evaluation of available information, but there have been actual cuts in strength in some countries. The number of identified divisions has increased, however, from 76 a year ago to 82 at present. Although most of these units are considerably under strength, the existence of a large trained reserve together with a continuing reserve training program would make it possible to bring them up to strength quickly in an emergency. Meanwhile, except for an expected increase in the size of the East German army, the Satellites will probably maintain their armies at approximately their present size.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 20

SECRET

Approved For Release 2004/06/24 : CIA-RDP79-00927A000300120001-7

Deliveries of Soviet weapons have tapered off since 1952. Although certain deficiencies still exist, it is believed that the initial re-equipment of most Satellite armies has been completed. However, sightings during the past year of new types of Soviet weapons in the hands of East German and Czech soldiers indicate continued deliveries to these countries.

There is evidence in several Satellite armies of an increased emphasis on training. Particularly noteworthy progress has occurred in East Germany and Poland, both of which showed deficiencies in training in 1953. A vigorous effort to improve training, morale and discipline in the East German army appears to have achieved results, which were evident in the level of training reached this spring. In Poland observations of a regimental level command-post exercise (CPX) in April and of a division level or higher CPX early in June suggest that large-scale maneuvers are planned for the autumn; they also indicate an effort to improve the capabilities of the Polish officer corps, which has lacked adequate command experience.

In the other Satellites, the training schedule appears to be normal for this time of year, except in Rumania, where the employment of troops to meet emergency needs of the civilian economy during the winter and spring caused a month's delay in the start of the summer field training program.

A further indication of the current emphasis on training of Satellite armies is the replacement since mid-1953 of five of the six Soviet military attachés in the Eastern European Satellites. All the new appointees are highly qualified professional army officers with extensive combat experience; four of them are Heroes of the Soviet Union, as is the military attaché in Czechoslovakia who was appointed in 1950. They replace officers with less distinguished combat records. Since the Soviet military attaché in a Satellite capital is mainly responsible for the training and supervision of the local armed forces, these appointments suggest a stepped-up effort to improve Satellite combat capabilities.

~~SECRET~~

IRRITATIONS IN SWISS-AMERICAN RELATIONS

CONFIDENTIAL

Swiss relations with the United States have recently been under strain on a number of issues, thus raising the possibility that Switzerland will be less co-operative with Washington in such matters as East-West trade and the Neutral Nations Supervisory Commission in Korea.

The most important issue to the Swiss is the United States Tariff Commission's recommendation for an increase in duties on watches, an action which has aroused widespread apprehension and strong Swiss protests. The Swiss fear it portends a trend which would undermine their country's ability to support itself through a high volume of foreign trade. They are further disturbed by the information that the Department of Justice is investigating possible violations of anti-trust laws growing out of American marketing arrangements of the Swiss watch cartel.

Switzerland's traditional sensitivity about its neutrality has been aroused by a number of other recent developments. Criticism has been leveled at the interception by the United States in early June of a duly licensed shipment of Swiss arms to Guatemala. Washington's recently announced proposal to send a loyalty board to investigate a few American UN employees in Geneva is resented by Bern as an act which could logically provoke a parallel request from other countries.

The Swiss are also somewhat irritated at the American attitude toward their continued membership in the Neutral Nations Supervisory Commission in Korea. Agreeing that this supervisory body is not functioning according to the armistice terms and is of benefit only to the Communists, they wish to withdraw, but they refuse to do so in a way that might suggest acting in response to American demands.

Switzerland's growing irritation at the United States is unlikely to result in any positive action of an unfriendly nature but can easily result in the withholding of co-operation, particularly in matters relating to strategic trade with the Orbit. In this field, the United States has made considerable progress in recent years in obtaining Swiss adoption of controls parallel to COCOM's. Early this year, however, Switzerland charged that certain COCOM countries were applying more stringent criteria to Swiss shipments to Communist China than to their own; and since that time it has persistently rejected American requests to institute controls on the important transit trade in strategic goods conducted through Swiss free ports.

16 July 54

CURRENT INTELLIGENCE WEEKLY

Page 22

~~SECRET~~

CONFIDENTIAL